

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 58042

**GRANT COUNTY, WASHINGTON**

January 1, 1995 Through December 31, 1995

Issue Date: January 31, 1997

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**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Board of Commissioners  
Grant County  
Ephrata, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Grant County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 4, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Grant County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 4, 1996

**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure  
At The Financial Statement Level**

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Board of Commissioners  
Grant County  
Ephrata, Washington

We have audited the general-purpose financial statements of Grant County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 4, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 4, 1996

GRANT COUNTY, WASHINGTON  
January 1, 1995 Through December 31, 1995

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Schedule Of Findings

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1. The County Should Comply With The Local Policy Over Investments

In 1994, the county adopted an investment policy and established a county investment pool. County funds and the funds of participating municipalities are invested in the pool. On June 30, 1996, the pool had a book value of approximately \$96 million. The pool is managed by the county treasurer, regulated by a county finance committee, and subject to the county's investment policy.

In response to prior audit recommendations, the county's investment policy was amended. However, our current examination disclosed that the county is still not in compliance with its own investment policy. The following areas of noncompliance were noted:

- a. Section 6 requires that new brokers/dealers receive the approval of the county finance committee. The treasurer is to maintain a list of the financial institutions authorized to provide investment services.

The treasurer did not maintain a list of authorized financial institutions.

- b. Section 6 also requires brokers/dealers to submit audited financial statements, a completed county broker/dealer questionnaire, and certification that the county's investment policy was read. These documents are used to evaluate the financial condition of brokers/dealers and to determine qualified bidders for investment transactions.

The treasurer did not develop or distribute a broker/dealer questionnaire. Audited financial statements and certification were on file for only one of the six broker/dealers in which the county invests.

- c. Section 6 further requires the treasurer to conduct an annual review of the financial condition and registrations of qualified bidders.

We found no evidence that the treasurer conducted annual reviews.

- d. Section 10 states in part:

. . . in order to preserve liquidity and to lessen market risk, the monthly weighted average to final maturity for the county investment pool shall not be over 650 days. The monthly weighted average to final maturity for the entire portfolio shall not be over 730 days (2 years) . . . .

As of June 30, 1996, the weighted average to final maturity for the county investment pool was 741 days. This is 91 days over the established limit. In addition, the weighted average

to final maturity for the county's entire portfolio, which includes the county investment pool, was 783 days. This is 53 days over the established limit.

The county's investment policy is designed to achieve the objectives of safety (preservation of capital), liquidity (able to meet all operating requirements) and return (attain a market rate). Failure to comply with the policy exposes county investment pool members to a higher level of market risk.

We recommend the county treasurer:

- a. Review and retain information on financial institutions and brokers/dealers in accordance with the county's investment policy.
- b. Comply with the maturity limits established by the county's investment policy.

Auditee's Response

*Grant County's Treasurer responded to the finding as follows:*

*Section "a" discusses that new broker/dealers receive the approval of the County Finance Committee. Since the inclusion of this requirement in early 1996, no new broker/dealer has been added, the committee has not had to approve of any new ones.*

*Section "a" also stated that the Treasurer maintain a list of financial institutions authorized to provide investment services. There might be possible confusion on what a financial institution does and does not include. Broker/dealers and where they work are not financial institutions. I had been requested to provide a list of broker/dealers which was not in a written form. We do maintain a file with the list of financial institutions authorized to provide investment services. It is the list the Washington Public Deposit Protection Commission sends out to all public fund treasurers showing all financial institutions authorized to receive public funds. While a list of broker/dealers is not specifically required, it would be very helpful to have to show who is new and approved by the finance committee and which broker/dealers were dealt with prior to the change to policy.*

*Section "b" stated the Treasurer did not develop or distribute a broker/dealer questionnaire. Also stated was that audited financial statements and certification were on file for only one of six broker/dealers.*

*The broker/dealer questionnaire included with the original investment policy included many questions and requests for information that were unnecessary and unneeded based on the type of investments allowed in our policy. Many of the questions in the questionnaire were intended to provide security information for investments where the broker/dealer and the firm they worked for held and possessed securities for return back to the Treasurer's account later. The finance committee decided not to require the old questionnaire until a more reasonable and truly informative form was created for our county pool needs. Since all securities that we buy are on payment vs delivery held by a third party trust custodian, I was going to propose at our next meeting that the revised questionnaire should just request things like proof of NASD certification and registration with the State of Washington. While these requirements do not provide any additional positive affect on any of the investments purchased, it does put all the broker/dealers on a level playing field.*

*I had been requesting financial statements and certification from the broker/dealers for the last couple years. Only in just the last month with a threat referencing the concern on the State Auditor's office did the certification and proof of NASD certification and registrations start coming in. I am also in possession of the phone number that can be used to call and verify NASD certification. While the*



*audited financial statements of each broker firm does not provide any additional security for the investments purchased, it does tell us the firm is still in business.*

*Section "c" states that the Treasurer conduct an annual review of the financial condition and registrations of qualified bidders. The financial condition of a broker firm has no bearing on the safety of investments approved by our investment policy. Since there is no need to do an annual review of the financial condition of qualified bidders, that reference is being removed from the policy. A review of the registrations will remain in the policy.*

*Section "d" expresses concern that the average life in June 1996 was 91 days over the established limit. As explained in the exit audit, many unexpected things happened in May and June that caused the average life to spike up in June. The finance committee was immediately informed of the problem and decided to ride out the spike and not allow any more investments purchased outside the State Investment Pool until the average life was brought back into compliance. The committee chose not to sell investments at losses that would reduce the yield and lower interest earnings to all the participants to get the average life back down. No investment purchases were made from June to September and the average life will easily be back into compliance in October. We have not had any problems with liquidity, the county pool actually has too much liquidity. We will be slowly diversifying money out of the State Pool and into shorter term investments.*

#### Auditor's Concluding Remarks

- Item a. Any confusion over brokers/dealers, financial institutions, and the lists required was caused by the language in the county's investment policy. We audit the requirements of the county's investment policy, but those requirements may need clarification. While the Washington Public Deposit Protection Commission provides a list of qualified financial institutions, we requested a list of authorized financial institutions. The county finance committee may or may not authorize qualified financial institutions. Thus, we reaffirm this portion of our finding. We do agree that it is difficult to determine new and approved brokers/dealers without an initial list.
- Item b. We applaud the county's efforts to develop and utilize a more appropriate broker/dealer questionnaire. We are also pleased that our concerns prompted increased financial statements and certifications. We will review the implementation of the questionnaire, audited financial statements, and certifications during our next audit.
- Item c. We appreciate the clarification and we will review the policy revision during our next audit.
- Item d. Although the treasurer and finance committee may have acted immediately and responsively to lessen the impact of unforeseen circumstances, the county's investment policy was adopted with certain objectives. The limits referenced were established to protect pool members.

#### 2. Grant County Should Comply With Paths And Trails Reserve Fund Requirements

During our audit of Grant County, we noted that the Paths and Trails Reserve Fund is not being expended in a timely manner. Reserves of \$323,330 are being held in the fund. \$41,660 has been held for more than ten years.

RCW 47.30.050 states in part:

The amount expended by a city (on trails for pedestrians, equestrians, or bicyclists) . . . shall never in any one fiscal year be less than one-half of

one percent of the total amount of funds received from the motor vehicle fund . . . Provided further, That a city . . . in lieu of expending the funds each year may credit the funds to a financial reserve or special fund, to be held for not more than ten years . . . .

The county was notified of this requirement in the prior audit and no action toward compliance was taken.

The county has not used the paths and trails reserve for any projects since 1992. Two projects are being considered for 1996. However, these projects have not yet been approved.

The county's noncompliance denies the public recreational trails and safe paths away from motor vehicle traffic.

We again recommend Grant County comply with state law and fund eligible projects with the paths and trails reserve.

*Auditee's Response*

*Grant County Public Works Department was given an opportunity to respond, but declined to do so.*

*Auditor's Concluding Remarks*

We wish to thank county officials and personnel for their assistance and cooperation during our audit.

**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional  
Information**

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Board of Commissioners  
Grant County  
Ephrata, Washington

We have audited the accompanying general-purpose financial statements of Grant County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grant County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Grant County.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 1996, on our consideration of the county's internal control structure and a report dated October 4, 1996, on its compliance with laws and regulations.

Brian Sonntag  
State Auditor

October 4, 1996

**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Additional Information Regarding Audits Of Special Purpose Districts Included In  
Trust And Agency Funds**

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The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.

### Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 districts associated with the county's financial statements are:

Public Hospital District No. 1  
Public Hospital District No. 2  
Public Hospital District No. 3  
Public Hospital District No. 4  
Public Hospital District No. 6  
Port District No. 10  
Fire Protection District No. 5  
Mosquito Control District No. 1  
Public Health District  
Regional Support Network

### Category 2 Districts

All special purpose districts which had total revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts  
Public Hospital Districts  
Irrigation Districts  
Water Districts  
Sewer Districts  
Water/Sewer Districts  
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

Cemetery District No. 1  
Beverly Water District  
Cascade Water District  
Royal Water District  
Public Hospital District No. 5  
Port District No. 1  
Port District No. 2  
Port District No. 3  
Port District No. 4

Port District No. 5  
Port District No. 6  
Port District No. 7  
Port District No. 8  
Port District No. 9  
Fire Protection District No. 3  
Fire Protection District No. 4  
Fire Protection District No. 6  
Fire Protection District No. 7  
Fire Protection District No. 8  
Fire Protection District No. 10  
Fire Protection District No. 11  
Fire Protection District No. 12  
Fire Protection District No. 13  
Fire Protection District No. 14  
Fire Protection District No. 15  
Noxious Weed Board  
Weed Control District No. 1  
Weed Control District No. 3  
Weed Control District No. 51  
Weed Control District No. 52  
Moses Lake Irrigation and Rehabilitation District  
Black Sands Irrigation District  
Mosquito Control District No. 2  
Mosquito Control District No. 3  
Emergency Communications District  
Airport District No. 1

### Category 3 Districts

All special purpose districts which had total revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

Cemetery District No. 2  
Cemetery District No. 3  
Cemetery District No. 4  
Cemetery District No. 5  
Clean Air Authority

In addition, the following four districts which would normally be categorized as Category 2, have been included as Category 3. These districts do not charge any user fees which would increase the risk as noted under Category 2.

Airport, Parks, and Recreation District No. 1  
Park District No. 2  
Crescent Bar Sewer District  
PTBA

**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Board of Commissioners  
Grant County  
Ephrata, Washington

We have audited the general-purpose financial statements of Grant County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 4, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Grant County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

October 4, 1996



**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Board of Commissioners  
Grant County  
Ephrata, Washington

We have audited the general-purpose financial statements of Grant County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 4, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 4, 1996

**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements  
Applicable To Major Federal Financial Assistance Programs**

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Board of Commissioners  
Grant County  
Ephrata, Washington

We have audited the general-purpose financial statements of Grant County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 4, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to vouchers, right-of-way, extensions, and sampling and testing as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Grant County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 4, 1996

**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements  
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

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Board of Commissioners  
Grant County  
Ephrata, Washington

We have audited the general-purpose financial statements of Grant County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 4, 1996.

In connection with our audit of the financial statements of the county and with our consideration of the county's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Grant County had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 4, 1996

**GRANT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Board of Commissioners  
Grant County  
Ephrata, Washington

We have audited the general-purpose financial statements of Grant County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 4, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 4, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 4, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Cash receipts
  - Receivables
  - Purchasing, receiving, and accounts payable
  - Payroll
  - Inventory control
  - Property, plant, and equipment
  - General ledger
- **General Requirements**
  - Political activity
  - Davis-Bacon Act
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements
- **Specific Requirements**
  - Types of services
  - Eligibility
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Cash disbursements
- **General Requirements**
  - Relocation assistance and real property acquisition
  - Subrecipient monitoring
- **Claims For Advances**

During the fiscal year ended December 31, 1995, the county expended 75 percent of its total federal financial assistance under a major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 4, 1996



GRANT COUNTY, WASHINGTON  
January 1, 1995 Through December 31, 1995

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Status Of Prior Findings

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The findings contained in the prior audit report were resolved as follows:

1. Grant County Should Comply With State Law And Local Policy Over Investments

*Resolution: Some policies and procedures were changed. However, this issue has not been entirely resolved. See Finding 1.*

2. Grant County Fair Should Improve Controls Over Cash Receipts

*Resolution: Significant improvements were made to internal controls over cash receipts. We will continue to monitor the fair's progress in this area.*

3. Grant County Should Comply With The Requirements Of Department Of Ecology

*Resolution: The county implemented our recommendations.*

4. Grant County Should Comply With Paths And Trails Reserve Fund Requirements

*Resolution: This issue has not been resolved. See Finding 2.*